

COMPETITIVE POSITION

TVA and Taxes

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The TVA Act requires that TVA make tax-equivalent payments to states and counties in which it does business. These payments, called in-lieu-of tax payments, must equal 5 percent of TVA's gross revenues from the prior year's sale of electric power to distributors and directly-served industrial customers.

"In order to render financial assistance to those States and local governments in which the power operations of the Corporation are carried on ...the board is authorized and directed to pay to said States ... 5 per centum...[of gross proceeds], excluding power used by the Corporation or sold or delivered to any other department or agency of the Government of the United States for any purpose other than the resale thereof."

– Section 13 of the Tennessee Valley Authority Act

State and local governments received \$304 million in in-lieu-of tax payments from TVA in 1999. The money from TVA is used by state and local governments in the Tennessee Valley region to help fund education, infrastructure and other community services. TVA has been making these payments for more than six decades.

In-lieu-of Tax Payment Methodology

The methodology used by TVA in determining its in-lieu-of tax payments to states and counties is as follows:

1. Five percent of prior year's gross revenues from the sale of power to distributors and directly-served customers, less sales to Federal agencies and other utilities, determines the total payment.
2. The total payment amount is then allocated to the states in which TVA has power operations based one-half on a ratio of power sales within each state to TVA's total power sales, and one-half on a ratio of the book value of TVA power property within a state to TVA's total power property.
3. All states share their TVA payment with their local governments. Each state has its own statute for allocating its in-lieu-of tax payments.

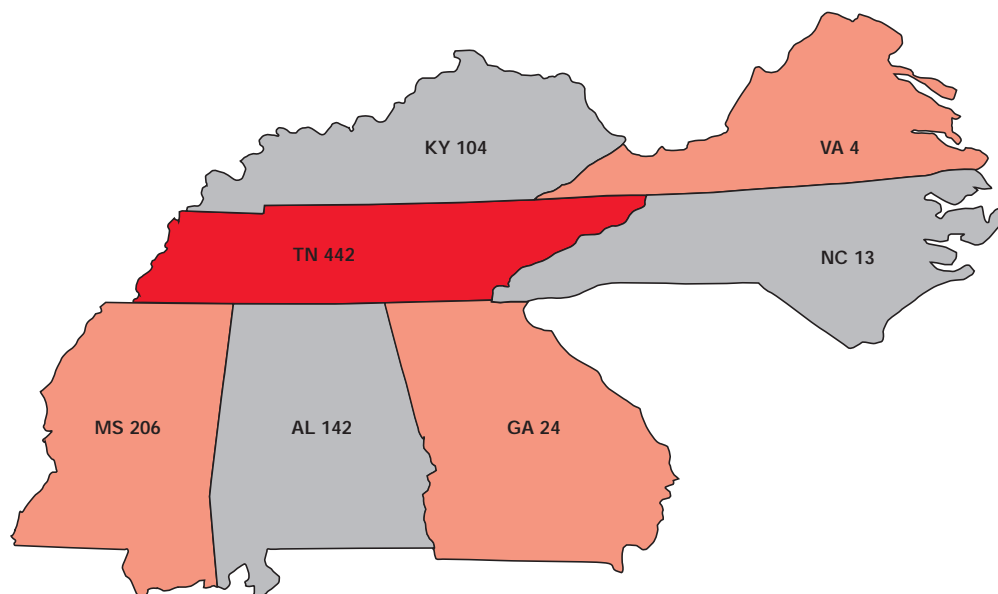
Tennessee Valley Authority In-lieu-of Tax Payments Fiscal Year 1999

State	Payments
Alabama	\$ 74,042,352
Georgia	4,453,255
Illinois	271,266
Kentucky	17,551,931
Mississippi	15,905,046
North Carolina	1,157,208
Tennessee	190,191,962
Virginia	<u>196,083</u>
Total	<u>\$ 303,769,103</u>

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TVA In-lieu-of tax payments benefit 938 governmental entities*

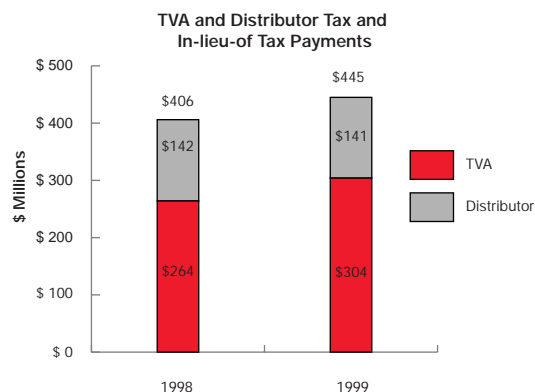
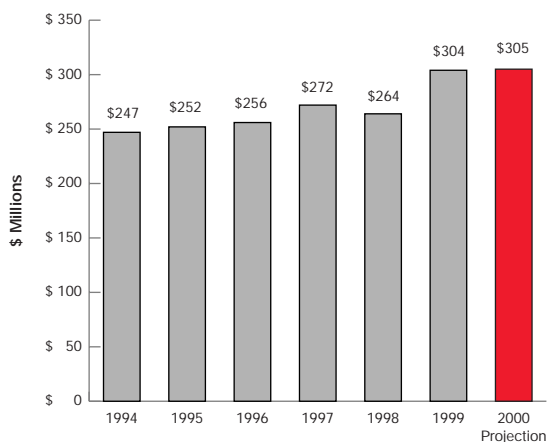


* Three government entities outside the Tennessee Valley also receive in-lieu-of tax payments.

TVA and Distributors of TVA Power

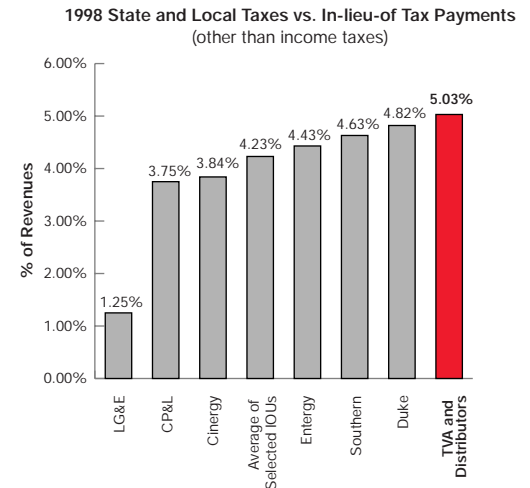
TVA and its distributors pay three different in-lieu-of tax rates: 7 percent (5 percent by TVA and about 2 percent by distributors) related to TVA's power sales through distributors; 5 percent (by TVA) on TVA direct sales to industrial customers; and 2 percent (by distributors) on distributors' markup on TVA power sales.

Total TVA In-lieu-of Tax Payments 1994-2000: \$1.9 Billion



Tax Comparison

TVA's in-lieu-of tax payments combined with distributors' tax and in-lieu-of tax payments are greater than the average property and state income taxes paid by private utilities in the states surrounding TVA's service area.



Source: 1998 fiscal year data from FERC Form 1 annual reports and EIA Form-412

1998 Taxes: Comparison of Ultimate Federal Revenues

Fiscal Year 1998

(in millions of dollars)

	TVA ⁽¹⁾	Entergy	Duke	Southern	AEP	LG&E	EEI IOUs
Federally Taxable Revenue Streams							
Interest Paid	\$ 1,934	\$ 842	\$ 490	\$ 998	\$ 413	\$ 96	\$15,611
Dividends Paid		373	814	933	458	141	15,257
	1,934	1,215	1,304	1,931	871	237	30,868
Assumed individual tax rate	28%	28%	28%	28%	28%	28%	28%
Effective federal tax revenue	542	340	365	541	244	66	8,643
Federal corporate income taxes	–	236	673	451	246	115	10,579
Return to U.S. Treasury ⁽²⁾	60	–	–	–	–	–	–
Total federal revenue	\$ 602	\$ 576	\$ 1,038	\$ 992	\$ 490	\$ 181	\$19,222
Percent of total revenues	7%	5%	6%	9%	8%	8%	6%

(1) Includes distributors.

(2) Includes a return of the U.S. Government's initial appropriation investment in TVA power facilities (\$20 million per year), plus a return on that investment (about \$40 million per year).

Federal Taxes

TVA is not obligated to pay a "share" of its income to the Federal Government as private utilities must, because TVA is a part of the Federal Government. Furthermore, from this income, TVA makes payments to the Federal Government each year, based on the Government's original investment in TVA's power program. To date, TVA's total payments to the U.S. Treasury on their original \$1.4 billion investment in TVA have been more than \$3.0 billion.